

197—12.2(534) First mortgage loans—safety and soundness.

12.2(1) An association may make first mortgage loans in which the payment, the loan balance and the maturity may vary, subject to any limitations contained in Iowa Code chapter 534 or these rules.

12.2(2) First mortgage real estate loans may be granted based upon terms of repayment which are negotiated and agreed to between the association and borrower, subject to the limitations contained in subrules 12.3(534) and 12.4(534).

12.2(3) For the purposes of these rules, adjustments to the various terms of first mortgage loans shall not interrupt the underlying security interest of the lender. The mortgage on the security property shall continue in place until it is released by the association.

12.2(4) Each first mortgage loan shall be underwritten based upon the applicant's ability to pay and creditworthiness, and the security to be given as collateral for the loan.

12.2(5) When granting first mortgage loans, the following documentation shall be collected and retained by the association:

- a.* Loan application describing the name of the applicant(s), purpose of the loan and the location of the security property;
- b.* Statement of financial condition describing the applicant's financial ability to repay the credit applied for;
- c.* Credit report describing the applicant's history of repaying debt;
- d.* Proof that the proposed security property is covered by adequate hazard or liability insurance;
- e.* Legal opinion affirming the quality and validity of the institution's lien or claim on the security property;
- f.* All other requirements of the Iowa Code.
- g.* If the loan is insured by FHA or guaranteed by VA, loan documentation is subject to the requirements of those agencies.

12.2(6) Payments shall be applied first to the payment of interest on the unpaid balance of the loan and the remainder if any to the reduction of principal.

12.2(7) If the first mortgage loan is in default in any manner, payments may be applied by the lender in any manner agreed upon between the borrower and association.

12.2(8) A lender may require additional collateral on first mortgage loans, subject to prohibitions of the Iowa Code.

12.2(9) First mortgage loans may be made on a fully amortized basis, nonamortized basis or a partially amortized basis, subject to limitations contained within Iowa Code chapter 534. Amortized and partially amortized loans may be granted for a maximum term of 40 years. Nonamortized loans may be granted for a maximum term of 15 years. If made for the purpose of construction, a nonamortized loan may be combined with an amortized or partially amortized loan into one note, provided that the total term does not exceed 42 years. Except for insured or guaranteed loans, interest shall be payable at least semiannually on nonamortized loans.

12.2(10) First mortgage loans with principal and interest payments less frequently than monthly but at least annually may be made with the same terms as monthly amortized loans, if the loan is secured by a first mortgage on a farm residence or combination of farm residence and commercial farm real estate.

12.2(11) Unless insured or guaranteed, no mortgage loan shall be made to exceed 90 percent of the appraised value of the security property.

12.2(12) The documentation requirements of this rule are not required for junior mortgage loans, however, prudent lending practices may dictate their use.